

Message Text

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70

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CANBERRA FOR MCINTYRE, MINERALS ATTACHE

E.O. 11652: N/A

TAGS: ENRG, NZ

SUBJECT: GNZ ANNOUNCES NEW TERMS FOR STATE PARTICIPATION IN OIL
EXPLORATION

REF: (A) 75 WELLINGTON A-55, (B) 75 WELLINGTON A-138

1. IN A STATEMENT RELEASED AFTERNOON OF MAY 13 MINISTER
OF MINES, MR. E.S. F. HOLLAND, OUTLINED THE NATIONAL GOVERNMENT'S
NEW POLICY OF GNZ PARTICIPATION IN THE DEVELOPMENT OF
PETROLEUM RESOURCES RELATED TO THE ISSUE OF FUTURE PROSPECTING
LICENSES.

2. ACCORDING TO THE NEW POLICY:

(A) GNZ WILL NOT CONTRIBUTE TO THE COST OF EXPLORATION
CARRIED OUT UNDER ANY PETROLEUM PROSPECTING LICENSE
THAT IS GRANTED FROM NOW ON BUT IT WILL HAVE THE
OPTION TO TAKE A PARTICIPATING INTEREST OF 51
PER CENT IN THE DEVELOPMENT OF ANY PETROLEUM
DEPOSIT DISCOVERED. THIS MEANS THAT THE
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GOVERNMENT WILL NOT IN FUTURE BE COMMITTED

TO EXPENDITURE UNTIL A DISCOVERY HAS BEEN MADE AND IT HAS DECIDED TO PARTICIPATE IN THE DEVELOPMENT.

UNDER THIS POLICY GNZ RESERVES THE RIGHT TO OBTAIN FOR THE COUNTRY A GREATER BENEFIT FROM ANY PETROLEUM RESOURCES RECOVERED THAN IT MIGHT RECEIVE FROM ROYALTY AND TAXES ALONE.

(B) TWO DIFFERENT RATES FOR ROYALTIES ARE TO BE SET: (1) 10 PER CENT FOR OFFSHORE AND (2) 15 PERCENT FOR ONSHORE LICENSES.

THE DIFFERENCE IN ROYALTY RATES REFLECTS THE MUCH HIGHER COSTS OF OFFSHORE ECPLORATION AND DEVELOPMENT.

MR. HOLLAND SAID AS THE NEW POLICY FOLLOWS ON FROM POLICY ADOPTED OVER RECENT YEARS IT SHOULD NOT COME AS ANY SURPRISE TO THE PETROLEUM EXPLORATION INDUSTRY. THE MINISTER CONFIRMED THAT AGREEMENTS FOR GNZ PARTICIPATION WITH SOME OFFSHORE EXPLORATION COMPANIES ALREADY ENTERED INTO IN CONNECTION WITH CURRENT OFFSHORE DRILLING PROGRAMS WOULD NOT BE AFFECTED BY THE ANNOUNCEMENT.

3. THERE HAVE BEEN SEVERAL EXPLORATION COMPANIES WAITING FOR DETAILS OF GNZ POLICY CHANGES BEFORE DECIDING WHETHER TO GO AHEAD WITH APPLICATIONS FOR ONSHORE PROSPECTING LICENSES.

4. COMMENT:
IN ADDITION TO IT BEING A NEW POLICY ON OIL EXPLORATION THIS MOVE IS ANOTHER STIP IN GNZ'S EFFORTS TO REDUCE GOVERNMENT SPENDING. THE POLICY ADOPTED BY THE FORMER LABOUR GOVERNMENT COMMITTED A 40 PER CENT GNZ FINANCIAL PARTICIPATION IN EXPLORATION COSTS FOR A 51 PER CENT INTEREST IN DEVELOPMENT. ALTHOUGH NO OFFICIAL FIGURES HAVE BEEN RELEASED ON JUST HOW MUCH GNZ HAS CONTRIBUTED TO OIL EXPLORATION UNDER THIS POLICY, IN VIEW OF THE EXPLORATION ACTIVITY THAT HAS TAKENPLACE DURING THE LAST EIGHTEEN MONTHS THE AMOUNT COULD RUN INTO SEVERAL TENS OF MILLIONS OF DOLLARS,
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FURTHER EXACERBATING THE BURGEONING BUDGET DEFICIT. THERE ARE SEVERAL IMPORTANT QUESTION LEFT UNCLEAR IN THE MINISTER'S ANNOUNCEMENT. THE ABSENCE OF ANY MENTION OF EXPLORATION "WRITE-OFF" PROVISIONS OR OTHER TAX CONCESSIONS COULD MEAN THAT PROSPECTING COMPANIES MAY, IN ADDITION TO MEETING ALL EXPLORATION COSTS, HAVE TO PAY HIGHER ROYALTIES AS WELL.

5.THE ANNOUNCEMENT BROUGHT A QUICK REACTION FROM
THE OIL EXPLORATION INDUSTRY. ONE INDUSTRY LEADER
DECLARED THAT THE CHANCES OF A MAJOR NZ DISCOVERY OF
PETROLEUM HAD DIMINISHED UNDER THE NEW LICENSING TERMS.
THEY TEND TO DICOURAGE EXPLORATION. HE RECALLED THAT
AFTER THE 40 PER CENT CONTRIBUTION - 51 PER CENT
PARTICIPATION POLICY WAS ANNOUNCED BY THE LABOUR GOVERNMENT
THREE BIG EXPLORATION COMPANIES - ESSO, SUPERIOR AND WHITNEY -
LOST INTEREST. ANOTHER INDUSTRY SPOKESMAN, C.H. BENNEY
OF L AND M OIL LIMITED, DESCRIBED THE TERMS AS UNREALISTIC.
HUNT OIL, WHICH SIGNED A NEW LICENSE AGREEMENT WITH THE
GOVERNMENT SEVERAL WEEKS AGO ON THE 40/51 PERCENT TERMS
(AND THEREFOREWILL BE UNAFFECTED BY THE LATEST GNZ POLICY),
IS CONTINUING ITS DRILLING IN ITS VAST LICENSE AREA GENERALLY
SUTH OF SOUTH ISLAND. ITS PENROD '74 RIG IS NOW OPERATING IN
1600 FEET OF WATER.
KILLGORE

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